

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ADJUSTMENT OF GAS AND ELECTRIC RATES)	
OF THE UNION LIGHT, HEAT AND POWER)	CASE NO. 90-041
COMPANY)	

O R D E R

IT IS ORDERED that The Union Light, Heat and Power Company ("ULH&P") shall file the original and 12 copies of the following information with the Commission by May 29, 1990 with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately.

1. a. According to the testimony of J. R. Mosley, page 5, the average daily balance of short-term debt and short-term

interest cost for 1989 were included in the calculation of ULH&P's embedded cost of debt. Provide workpapers to support the average daily balance of \$5,313,973.

b. Discuss why the use of month-end balances "is not representative of ULH&P's particular utilization and requirements of short-term debt." Also discuss the factors which influence the specific requirements of short-term debt of ULH&P, both during the test period and after the test period, and during the projected period when rates are in effect.

2. According to Mosley testimony, page 6, Moody's recently downgraded ULH&P's first mortgage bonds. Provide a copy of the advisory opinion from Moody's in which the downgrading was discussed.

3. Regarding the Group 3 companies listed on Mosley Exhibit JRM, page 4 of 7, provide the supporting workpapers and backup information used to conclude that these companies had risk attributes similar to ULH&P. Include the following information:

a. The calculated data for each of the seven risk measures discussed on pages 11 and 12 of the Mosley testimony.

b. A discussion of the "statistical procedure" which identified groups of companies that had similar risks, in sufficient detail for the Commission to understand the validity of this procedure.

c. Provide the time period from which the data for each of the seven risk measures was selected. Discuss why this time period was considered to be appropriate in determining that the companies have risk attributes similar to ULH&P.

4. Relative to Mosley Exhibit JRM, page 4 of 7, explain how the 8 "risk groups" are related to each other in terms of risk attributes, rank the 8 risk groups in terms of risk, and explain why the Group 3 utilities are more (or less) risky than their counterparts in the other "risk groups."

5. Regarding the Mosley testimony, pages 14-16, to include a 4 percent flotation cost adjustment, provide the following:

a. For each individual offering by ULH&P over the period 1980-1990, the amount of flotation costs, the gross proceeds and the percentage of flotation costs to gross proceeds.

b. The backup information from the IDD database which supports the statement that "The flotation cost of 4% represents an average of individual company flotation cost percentages."

c. A discussion regarding ULH&P's standard accounting treatment for flotation costs, including journal entries.

6. Mr. Van Curen states on page 7 of his testimony that general principles outlined in Chapter 12, "Cost Allocation Studies," of the AGA's "Gas Rate Fundamentals" book was used to allocate gas rate base, expenses, and tax items. Should this be Chapter 7 of the AGA book instead of Chapter 12?

7. Describe fully how the AGA guidelines were used to classify gas rate base, expenses, and tax items as customer, commodity, or demand related and then to allocate them to the rate classes.

8. Describe fully the derivation of the weights used in calculating the weighted customer allocation factors K402

(Service) and K404 (Cust Acct) as shown on Exhibit PVC-GCOS Schedule 14, page 2 of 6.

9. Explain why gas distribution mains are allocated based on peak month Mcf ratios instead of by the zero-intercept method.

10. The following questions pertain to Exhibit PVC-GCOS Schedule 14, page 6 of 6:

a. Is the "customer component from curve" shown on this page derived by ordinary least-squares estimation? If not, describe fully the derivation of this component.

b. Since the number of feet of distribution main is not equally distributed among all sizes of mains on ULH&P's system, why did ULH&P not use a weighted least-squares estimation, which uses the number of feet of distribution main as a weighting variable, instead of ordinary least-squares?

c. Are the customer and demand components shown on this page equivalent to those described on pages 8-9 of Van Curen's testimony?

11. Explain why city gate stations, system measuring and regulating equipment, district regulators, and associated land, rights-of-way, and structures and improvements were allocated on the basis of a zero-intercept study which normally is used to determine the customer and demand components of distribution mains.

12. Describe fully the derivation of the allocation factors shown on Schedule B-7 of the electric case.

13. Describe fully the derivation of the coincident peak load factor (.542) as discussed on pages 19-20 of Van Curen's testimony.

14. Describe fully how conductors and transformers were divided between customer and demand components as shown on Exhibit PVC-ECOS Schedule 2, page 1.

15. Discuss fully how the NARUC guidelines were used to classify electric rate base, expense, and tax items as customer, energy, or demand related as stated on pages 18-19 of Van Curen's testimony.

16. Describe fully how the results of the electric and gas cost-of-service studies were used in the determination of rate design as presented in this case.

17. Schedule E-3, page 1 of 10, in the electric application and the testimony of D. J. Rottinghaus, page 15, describe the proposal to separate the base fuel cost of 1.9091 cents from the base energy rate for all tariff schedules. Provide a detailed explanation of the reasons for this proposal.

18. Schedule C-3.1, page 1 of 4, in the electric application and workpapers WPE-4a, WPE-4b, and WPE-4.1m reflect a revenue adjustment of \$196,338 which is identified as an annualization adjustment. Provide a detailed description and explanation for this adjustment, and include workpapers showing how the adjustment was calculated.

19. Schedule E-2, page 16 of 42, in the electric application includes proposed rates for Rate DP-Service at Primary Distribution Voltage. However, these rates (demand charge and

energy charges) do not agree with the rates used in the Rate DP billing analysis at Schedule E-4.1, page 9 of 28. Provide an explanation for the discrepancy and a clarification of which rates are in error.

20. Schedule E-4.1, page 19 of 28, in the electric application is the billing analysis for rate SL - Street Lighting. Line 32 lists the Town & Country light with a 17 foot laminated wood pole; however, the proposed SL tariff (Schedule E-2, pages 22-24) does not include a laminated wood pole or a rate for a laminated wood pole. Provide an explanation for this discrepancy and a clarification of whether the billing analysis or the tariff is in error.

21. Schedule E-2, page 39 of 42, of the electric application is the proposed tariff for rate SE-Street Lighting Service - Overhead Equivalent. Explain the reasons for the aluminum, fiberglass, and steel poles all having rates per pole of \$0.00; and explain if a rate should have been shown for the poles included on this schedule.

22. Per Schedule C-3.1, page 1 of 4 of the gas application and the testimony of A. L. Danemayer, pages 7 and 8, gas revenues and sales volumes have been adjusted for weather-normalized sales and for year-end customers. Schedule E-4 shows the calculation of revenues based on normalized sales. In addition, workpapers WPE-4b through WPE-4y show the derivation of normalized sales and revenues; however, this derivation does not separately identify the results of the weather normalization adjustment and the results of the year-end customer adjustment.

a. Provide a detailed explanation, and supporting workpapers, which separately show the impact of adjusting sales and revenues based on normal degree days of 5,247.

b. Provide a detailed explanation, and supporting workpapers, which show the impact of adjusting sales and revenues based on year-end customers.

23. The weather normalization adjustment is based on normal degree days compiled by the Weather Bureau for the thirty-year period of 1951 through 1980.

a. Explain whether any consideration was given to using more recent degree day data for the determination of normal degree days.

b. Provide the annual degree days for each year from 1951 through the test year, calendar year 1989.

24. Rates OP, TS, and CF are proposed to be cancelled and replaced by rate IT, Interruptible Transportation Service. Regarding this proposal, provide the following information:

a. Under proposed rate IT, explain the reasons for deleting the requirement that customers have alternative fuel capabilities.

b. Provide an explanation for why ULH&P would not propose a fixed transportation rate and have standby service available for customers without alternative fuel capabilities.

c. Rate IT states that rates will include a take-or-pay recovery charge, as competitive conditions allow. Explain how ULH&P will define competitive conditions for purposes of this tariff.

d. Explain whether the criteria, i.e. - producer gas costs, alternative fuel costs, system capacity, revenue requirements, etc. -- that ULH&P presently uses to determine flexible transportation rates would change under rate IT.

e. Explain whether any consideration has been given to establishing a floor for rate IT.

f. Provide a detailed explanation for deleting the language requiring a customer affidavit with a statement that alternative fuels would be used absent a reduced transportation rate.

g. Provide a detailed explanation for not retaining the language regarding agency service presently in Rate CF which requires a "cost per Mcf which would assure that the lowest purchased cost of supply would be used for system requirements."

h. Explain the reasons for deleting the 5 cents per Mcf gas cost credit presently included in Rate CF.

i. Under Terms and Conditions, the fifth paragraph discusses penalties ULH&P shall have the right to impose for customer imbalances. Identify the types of penalties envisioned and explain why such penalties should not be included in the tariff.

j. The last paragraph under Terms and Conditions includes a description of the minimum charges to be paid when a customer re-applies for service within one year of voluntary termination. Explain whether these minimum charges include the \$250 per month administrative charge.

25. Provide the following information regarding proposed Rate SS - Standby Service:

a. Explain why Rate SS is available only to human needs and public welfare customers and why some type of standby service is not being offered to industrial customers.

b. Provide a detailed explanation of how the charges specified in the customer's written agreement will be determined.

c. Explain why these standby charges are not included in the proposed tariff and whether the charges will vary by customer.

26. Proposed Rate GS - General Service includes a two-level customer charge with 1,000 Ccf as the break point. Explain whether the customer charge will change monthly for a customer with usage that fluctuates around the 1,000 Ccf level.

27. ULH&P's proposed tariffs IT and FT include language in the applicability sections which indicate that IT would be curtailed before FT and that FT would be curtailed before RS and GS. Explain whether any consideration has been given to modifying the language in the Curtailment Plan Tariff, Schedule E-2, page 30 of 32, to match the terms and descriptions of customers included in the proposed tariffs.

28. In determining the capitalization on Schedule D-1, ULH&P did not include an amount for the Job Development Investment Tax Credit ("JDIC"). In ULH&P's last general rate cases, Case Nos.

9029¹ and 9299,² the Commission included adjustments for JDIC in ULH&P's capitalization and interest expense.

a. Provide the amount of JDIC for both the electric and gas operations as of test-year end. Include all supporting workpapers and calculations used in determining the amounts.

b. Explain why ULH&P did not include an amount for JDIC in its application.

29. In Case No. 9029, the Commission indicated that it would review the actual and projected costs of the abandonment of the Eagle Creek Aquifer in this rate case. Provide a schedule of the actual and estimated costs relating to the abandonment. Include the balance remaining to be amortized and the number of years remaining for amortization. Include all supporting workpapers and calculations used to determine the amounts.

30. In ULH&P's cases relating to the Federal Tax Reform Act of 1986, Case Nos. 9782³ and 9788,⁴ the Commission indicated

¹ Case No. 9029, An Adjustment of Gas Rates of The Union Light, Heat and Power Company, final Order dated October 24, 1984.

² Case No. 9299, An Adjustment of Electric Rates of The Union Light, Heat and Power Company, final Order dated October 3, 1985.

³ Case No. 9782, The Effects of the Federal Tax Reform Act of 1986 on the Rates of The Union Light, Heat and Power Company - Electric, final Order dated June 11, 1987.

⁴ Case No. 9788, The Effects of the Federal Tax Reform Act of 1986 on the Rates of The Union Light, Heat and Power Company - Gas, final Order dated June 11, 1987.

that the issue regarding accelerated amortization of excess deferred taxes resulting from the change in the tax rate from 46 percent to 34 percent would be considered in future general rate proceedings. The present case is ULH&P's first general rate proceeding since those cases. Explain in detail how ULH&P has been amortizing its excess deferred taxes during the test year, for both the electric and gas operations. Include the number of years used in the amortizations, for both protected and unprotected amounts. Indicate whether ULH&P proposes any changes to its amortization methodologies.

31. During the 1990 Regular Session, the Kentucky General Assembly passed House Bill 940, which included an increase in the state corporate income tax rate and provided for state conformity with the federal income tax code. In its application, ULH&P did not reflect these changes. Provide all schedules necessary to reflect the impact of these changes on ULH&P's rate application. Include all supporting workpapers and calculations used to determine each adjustment including the new combined state and federal income tax rate. Explain each change made to the application to reflect the changes in the state income tax laws.

32. In the application for both electric and gas operations, Schedule A-3.6 presents selected information concerning ULH&P's notes outstanding. Schedule D-2 presents the calculation of the embedded cost of short-term debt. Explain why the total amount shown on Schedule A-3.6 does not equal the total amount outstanding shown on Schedule D-2.

33. For both electric and gas operations, Schedule A-7 contains the Company and Departmental Allocation Schedules for ULH&P. The Company Allocation Schedule was released on January 8, 1989 and in many instances the allocations are based on data as of October 31, 1988. The Departmental Allocation Schedule was released on February 1, 1989 again with many allocations based on data as of October 31, 1988.

a. Indicate whether these allocation schedules are still in effect at ULH&P. If new allocation schedules have been issued, provide copies of the new schedules, with the effective date.

b. Describe how frequently the allocation bases are reviewed in order to update the allocation schedules.

34. Schedule B-2.2 reflects an adjustment to include estimated additions to plant in service for the period January through June 1990. In the testimony of Frank E. Coyne, it is stated that by including these post test-year additions, the rate base valuation would more closely coincide with the effective date of the rates in this proceeding.

a. In previous cases where the Commission has allowed post test-year additions to utility plant, the Commission has acknowledged that particular circumstances existed which necessitated the adjustments. Provide a thorough explanation of the circumstances that exist which cause ULH&P to seek this plant adjustment.

b. In the final Order in Case No. 10481,⁵ the Commission stated that it believed the best solution to the problem of regulatory lag occurring during periods of significant additions to plant in service was the use of a forecasted test year. The Commission gave notice that:

1) adjustments for post test-year additions to plant in service should not be requested unless all revenues, expenses, rate base, and capital items have been updated to the same period as the plant additions; 2) it will accept a forecasted test period in lieu of the adjusted historical test period; and 3) if a forecasted test year is used in a rate case, the utility should also file historical test-period information for a 12-month period.⁶

Explain how ULH&P has fully complied with Item 1. Also, explain why ULH&P did not file this case using a forecasted test period instead of a historic test period, since it is seeking a post test-year adjustment to plant in service.

35. For both the electric and gas operations, Schedule B-3.2 presents the depreciation accrual rates for utility plant. For some items of utility plant, ULH&P has indicated that the depreciation rate is the latest known rate since the particular account was fully depreciated at the time of the last depreciation study. According to the Supplemental Information (C) (10), the latest depreciation study was effective January 1, 1977.

⁵ Case No. 10481, Notice of Adjustment of the Rates of Kentucky-American Water Company Effective on February 2, 1989, final Order dated August 22, 1989.

⁶ Ibid., page 5.

a. For each instance where ULH&P used the latest known depreciation rate, identify the source of information for that rate.

b. Indicate when ULH&P expects to perform a new depreciation study.

36. As shown on Schedules B-4 and B-4.1, ULH&P has not included any Construction Work in Progress ("CWIP") for either the electric or gas departments. In Case Nos. 9029 and 9299, the Commission noted that such an exclusion was not consistent with its established methodology for establishing the value of investment in utility property at a specific point in time. Such an exclusion would result in a mismatch of earnings, rate base, and capitalization.

a. Provide an explanation of why CWIP has not been included by ULH&P in this case.

b. Explain why the Commission should deviate from its established methodology and exclude CWIP in the determination of ULH&P's net original cost rate base.

c. For both the electric and gas departments, as well as for common plant, complete Schedules B-4 and B-4.1 as of test-year end. Include any supporting workpapers and calculations needed for the schedules.

d. In order to reflect the impact of the proposed adjustment to utility plant for additions through June 30, 1990, provide adjusted CWIP figures as of June 30, 1990, in the formats shown in Schedules B-4 and B-4.1. Throughout this proceeding, as the estimated costs of the additions becomes known, and revisions

are submitted to reflect the actual costs, provide any necessary revisions to this requested CWIP information.

37. Schedule B-5.1 presents the calculation of the allowance for working capital, for both the electric and gas operations. Included in the prepayments section of this calculation are amounts for the Kentucky PSC Maintenance Tax and Auto License Taxes. Provide a detailed explanation as to why these items should be included in the prepayments section of the calculation of working capital.

38. For both the electric and gas departments, provide the accounting entries made to recognize the unbilled revenues at the end of the year and the beginning of the new year. Include a narrative explanation of this accounting process.

39. The annual variance report for gas accounts is contained in WPC-2.2a through WPC-2.2zzzzz. For each of the accounts listed below, provide an explanation of the reason for the change in the account total between 1988 and 1989. In some instances, the change will be related to activity in certain subaccounts. In those instances, identify the reasons for the change at the subaccount level. The page number references identify the page within the workpaper range that the account total appears on.

- a. Account No. 728, Liquefied Petroleum Gas, page 2.
- b. Account No. 742, Maintenance of Production Equipment, page 4.
- c. Account No. 801, Purchased Gas Field Line, page 8.
- d. Account No. 804, Purchased Gas - Transmission, page 9.

- e. Account No. 805, Unrecovered Purchase Gas Cost Adjustment, page 10.
- f. Account No. 870, Supervision and Engineering, page 12.
- g. Account No. 874, Mains and Services, page 17.
- h. Account No. 875, Measuring and Regulating Stations - General, page 18.
- i. Account No. 879, Customer Installations, page 21.
- j. Account No. 880, Other Expenses, page 25.
- k. Account No. 887, Mains, page 29.
- l. Account No. 892, Services, page 32.
- m. Account No. 893, Meters, page 33.
- n. Account No. 4409, State Income Tax, page 37.
- o. Account No. 4480, Residential Retail Revenue, page 49.
- p. Account No. 4483, Inter Company Nat. - CG&E Unaccounted, page 51.
- q. Account No. 4907, Customer Service and Information Expense - Supervision, page 70.
- r. Account No. 4908, Customer Assistance, page 74.
- s. Account No. 4912, Demonstrating and Selling, page 79.
- t. Account No. 4920, Administrative and General Salaries, page 90.
- u. Account No. 4921, Office Supplies and Expenses, page 104.

v. Account No. 4922, Administrative Expenses Transferred - Credit, page 104.

w. Account No. 4923, Outside Services Employed, page 105.

x. Account No. 4925, Injuries and Damages, page 107.

y. Account No. 4926, Employees Pensions and Benefits, page 114.

z. Account No. 4928, Regulatory Commission Expenses, page 114.

aa. Account No. 4930, Miscellaneous General Expenses, page 119.

ab. Account No. 4931, Rents, page 122.

ac. Account No. 4935, Maintenance of Equipment, page 123.

ad. Account No. 4941, Liberalized Tax Depreciation - Excess Normal., page 124.

ae. Account No. 4943, Uncollectable Accounts Provision, page 124.

af. Account No. 4947, Cost of Removal, page 124.

ag. Account No. 4949, Miscellaneous Federal Income, page 125.

ah. Account No. 4951, Book Depreciation Transportation Equipment - ADR, page 125.

ai. Account No. 4955, Unrecovered Purchased Gas Cost, page 126.

aj. Account No. 4959, Miscellaneous Kentucky State Income, page 127.

ak. Account No. 4960, Tax Income Adjustment Contra Account, page 128.

40. The annual variance report for electric accounts is contained in WPC-2.2a through WPC-2.2111111. For each of the accounts listed below, provide an explanation of the reason for the change in the account total between 1988 and 1989. In some instances, the change will be related to activity in certain subaccounts. In those instances, identify the reasons for the change at the subaccount level. The page number references identify the page within the workpaper range that the account total appears on.

- a. Account No. 557, Unrecovered Fuel Cost, page 1.
- b. Account No. 567, Rents - Transmission, page 9.
- c. Account No. 569, Structures - Transmission,
page 11.
- d. Account No. 571, Overhead Lines, page 13.
- e. Account No. 588, Miscellaneous Distribution,
page 31.
- f. Account No. 589, Rents - Distribution, page 32.
- g. Account No. 590, Supervision and Engineering,
page 35.
- h. Account No. 591, Structures - Distribution,
page 35.
- i. Account No. 593, Overhead Poles, Fixtures,
Conductors, and Devices, page 38.
- j. Account No. 5409, State Income Tax, page 50.

k. Account No. 5410, Deferred State Income Taxes -
Deferrals, page 54.

l. Account No. 5411, Deferred State Income Taxes -
Writebacks, page 61.

m. Account No. 5451, Other Revenues - Various Charges,
page 66.

n. Account No. 5454, Other Revenues - Rents, page 67.

o. Account No. 5908, Customer Assistance Expenses,
page 87.

p. Account No. 5912, Demonstrations and Selling,
page 92.

q. Account No. 5920, Administrative and General
Salaries, page 104.

r. Account No. 5921, Office Supplies and Expenses,
page 118.

s. Account No. 5922, Administrative Expenses Transfer
- Credit, page 118.

t. Account No. 5923, Outside Services Employed,
page 119.

u. Account No. 5925, Injuries and Damages, page 121.

v. Account No. 5926, Employee Pension and Benefits,
page 128.

w. Account No. 5928, Regulatory Commission Expense,
page 128.

x. Account No. 5929, Duplicate Charges - Credit,
page 129.

y. Account No. 5931, Rents, page 136.

z. Account No. 5935, Maintenance of General Plant, page 138.

aa. Account No. 5943, Uncollectible Accounts Provision, page 139.

ab. Account No. 5947, Cost of Removal, page 139.

ac. Account No. 5949, Miscellaneous Federal Income, page 139.

ad. Account No. 5958, Vacation Pay Accrual Electric, page 141.

ae. Account No. 5959, Miscellaneous Kentucky State Income, page 141.

af. Account No. 5960, Tax Income Adjustment Contra Account, page 142.

41. In Schedule C-3.2, ULH&P has proposed to reclassify its charitable contributions as operating expenses. The electric operations portion totals \$66,429 and the gas operations portion totals \$42,489. On page 11 of testimony filed by A. L. Danemayer, ULH&P has stated its reasons for including these contributions as operating expenses. In Case Nos. 9029 and 9299, the Commission rejected a similar proposal by ULH&P.

a. Explain why ULH&P should be allowed to pass on its "social obligation" to make charitable contributions to its ratepayers. In other words, if this is ULH&P's obligation, why shouldn't its shareholders bear the expense?

b. Provide a thorough explanation of how these donations benefit only ULH&P's customers.

42. Schedule C-3.3 contains ULH&P's proposal to expense the entire cost of this rate case proceeding in one year. The total estimated expense is \$75,000. Provide a detailed explanation as to why this cost should be expensed in one year rather than amortized over a period of three years, as was proposed for the cost of the management audit.

43. Schedules C-3.4 and C-3.5 and the related workpapers, WPC-3.4a through WPC-3.5f, present ULH&P's proposed adjustments to employee wages.

a. On WPC-3.4f, 3.4g, 3.5d, and 3.5e it would appear that some employees in those bargaining units did not receive a general wage adjustment in the test year or a cost of living adjustment early in 1990. Indicate whether this is a correct interpretation of these workpapers and explain why these employees would not be eligible for the wage adjustments.

b. On WPC-3.5a it is indicated that between March 26 and May 14 of 1990, all three bargaining units will receive a 3 percent general wage increase. Indicate whether all employees represented by the bargaining units will receive this increase or will there be exceptions as noted in the previous question.

c. For the 3 percent general wage increase scheduled in 1990 for the bargaining units, provide workpapers in the same format as WPC-3.4e through WPC-3.4g.

d. On WPC-3.4h and WPC-3.5f are presented the percentages to be used in the application of labor overheads to certain labor costs, effective the beginning of the test year and January 1, 1990. Provide a detailed explanation as to why the

percentage for employee insurance and hospitalization decreased from 10.0 percent to 8.8 percent; employee injuries and damages decreased from 1.8 percent to zero; and the employee SIP and DCIP plans increased from 1.1 percent to 1.5 percent. Describe what is included in each of these three categories.

e. On WPC-3.5c presents a summary of the general merit increase given to supervisory, administrative, and professional employees effective January 1, 1990. Explain how the 5.2 percent increase was determined and why this increase was greater than the 3 percent awarded to the bargaining units in 1990.

44. Schedule C-3.6 presents ULH&P's proposal to amortize the cost of the management audit over a three year period. Explain why 60 percent of the proposed amortization amount was assigned to the electric operations and 40 percent to gas operations.

45. Schedule C-3.8 contains the proposed adjustment to property taxes to reflect the addition of utility plant as of June 30, 1990. WPC-3.8a is a workpaper showing the calculation of this adjustment. Indicate how early in the test year ULH&P would have had the necessary information to calculate the Kentucky valuation percentage and the Kentucky average property tax rate.

46. Schedule C-3.13 and workpaper WPC-3.13a show ULH&P's proposed adjustment to reflect a change in cost allocation rate to its Customer Service Department's Service Representatives Division for employee time.

a. Describe how ULH&P arrived at the revised allocation rate. Include any studies or analysis used to determine the revised allocation rate.

b. Identify the management audit recommendation reference.

47. Schedule C-3.14 shows ULH&P's proposed adjustment to remove advertising expenses disallowed for rate-making by 807 KAR 5:016, Section 4. This regulation disallows for rate-making purposes political, promotional, and institutional advertising. Schedule C-8 lists all of ULH&P's general advertising expenses by account number. Based upon the descriptions contained in the Uniform System of Accounts for both gas and electric companies, expenditures recorded in Account No. 912, Demonstrating and Selling Expenses, and Account No. 913, Advertising Expenses, would fall under those types of advertising disallowed in 807 KAR 5:016, section 4.

a. For the expenses recorded in Account No. 912 and 913, provide a detailed explanation as to why none of these amounts should be excluded in accordance with the regulation.

b. For any expenses which ULH&P believes should be included for rate-making, which were recorded in Account No. 912 and 913, prepare a schedule describing the nature of the expense and provide examples of the type of advertising involved.

c. On page 13 of Mr. Danemayer's testimony, he states that ULH&P maintains that these advertising expenses are necessary, that they are recoverable business expenses, and should not be eliminated. Provide a detailed explanation as to how the advertising expenses in Account No. 930.1 produce a material benefit for the ratepayers.

48. ULH&P's proposed adjustment to health care costs is presented on Schedule C-3.15 and WPC-3.15a.

a. Explain how the allocation between electric and gas shown on WPC-3.15a was determined.

b. Provide a schedule of the health care premiums for ULH&P, by month, for the test year and the first three months of 1990. The schedule should include a breakdown between the direct and allocated charges paid by ULH&P. Include copies of premium statements for each month shown on the schedule.

c. Provide a schedule of the consolidated health care premiums, by month, for the test year and the first three months of 1990. Indicate how consolidated costs are allocated to ULH&P.

49. ULH&P has proposed an adjustment to its storm damage expense to reflect the average actual experience during the ten year period of 1980 through 1989. The adjustment is shown on Schedule C-3.16 and WPC-3.16a and WPC-3.16b.

a. WPC-3.16a makes reference to extraordinary storm expense items which occurred in the test year. Provide an explanation as to the nature of these extraordinary items.

b. WPC-3.16b and WPC-3.12c present the calculation of the Consumer Price Index - Urban factors used in determining the adjustments to the storm damage expense and the injuries and damages expense. The Index figure for 1989 is indicated as an 11 month average, rather than a full year. Provide the Consumer Price Index - Urban figure for the entire 1989 year.

50. Schedule C-4 is a summary of the jurisdictional factors used in the allocation of electric department accounts. For the

following accounts, explain why the referenced allocation code is the appropriate one to use in the allocation.

- a. Rent from Electric Property, Allocation Code K411.
- b. Sales and Use Tax Collection; Data Processing Service; and Office Service Non-Associated Companies, Allocation Code K411.
- c. Federal Income Tax - Reconciling Items - Payroll Taxes, Allocation Code NP29.
- d. Deferred Taxes - Payroll Taxes, Allocation Code NP29.

51. Schedule C-8.2 is a listing of the professional services expenses incurred during the test year. For each service listed, indicate whether the expense is expected to be incurred again in 1990. For those expenses expected to be recurring, indicate the expected cost to be incurred.

52. WPB-2.2a is a listing of estimated net additions to the electric and gas plants of ULH&P.

- a. For each budget account of electric or gas plant additions, provide a description of the utility plant to be added.

- b. Where applicable, reference each plant addition to the appropriate case number where a Certificate of Convenience and Necessity was granted.

- c. Indicate whether each of the listed plant additions is to the benefit of ULH&P's customers, its parent company's customers, or both.

53. For WPB-6a through WPB-6c, provide supporting workpapers and calculations for the entries shown as transactions and activity occurring between January 1 and June 30, 1990.

54. From WPC-3.8b and WPC-3.8c, for the gas department, explain how the following variables were determined for West Virginia and Ohio:

- a. ULH&P's share of the underground storage.
- b. The cost per Mcf (estimated).
- c. The equalization or valuation percentage.
- d. The tax rate.

55. Concerning WPC-3.9c through WPC-3.9m, the workpapers identifying the annual wages in excess of the FICA maximum levels,

a. Indicate whether these workpapers reflect the wages at test-year end, wages after the cost of living adjustment, or wages after the 1990 general wage increases.

b. Provide a revision of these workpapers, reflecting the 1990 general wage increases expected through May and using the FICA maximum taxable wages of \$51,300.

56. On WPC-3.12a, the workpaper showing the annualization injuries and damages expense, explain what the reference "Schedule 'M' item" means.

57. On WPC-5.1b is an explanation of the Section 481(a) adjustments to unbilled revenues and uncollectible accounts. Provide all supporting workpapers and calculations used to determine the total increase in taxable income, the amount added to taxable income in one year during the four year adjustment period,

and the tax difference which was deferred for both the unbilled revenues and uncollectible accounts.

58. The most recently completed Federal Energy Regulatory Commission ("FERC") audit was filed with ULH&P's application as Supplemental Information (C)(1). The FERC audit report was dated August 20, 1986. The report noted five compliance exceptions and that ULH&P had agreed to take the appropriate corrective action.

a. For exceptions No. 1, 2, 3, and 5, provide a narrative explaining the corrective action taken by ULH&P.

b. For exception No. 4, seeking FERC approval for extraordinary property loss accounting for the abandoned Eagle Creek Aquifer Storage Field, describe the actions taken by ULH&P to correct the exception. Include copies of ULH&P's application to FERC seeking approval of the accounting treatment and FERC's final order in that proceeding.

c. As noted above, the last completed audit report was issued in 1986. Indicate whether ULH&P has undergone any subsequent audits by FERC. If available, provide copies of any preliminary or draft audit reports. Indicate what impact, if any, the findings in these audits would have on the present rate case.

59. On page 3 of testimony filed by Richard A. Lonneman, it is indicated that ULH&P plans on updating its post-test-year adjustment to utility plant with actual data prior to the hearing in this proceeding. Indicate an approximate date by which ULH&P plans to file this update.

60. In the testimony of Donald I. Marshall, reference is made to several programs ULH&P has been involved with to improve

customer, community, and employee relations. For each of the programs listed, provide the test year cost, the account the cost was recorded in, and an estimation of what the on-going costs of the program is expected to be for the next year.

- a. "We Care" Program.
- b. Energy Check-up Program.
- c. Wintercare.
- d. Home weatherization program.
- e. "Gatekeeper" Program.
- f. Adjusted Due Date Program.
- g. Performance Appraisal Review System.
- h. Salary Administration Program.
- i. "Choices" Program.
- j. The Balancing Act Program.
- k. "Applause! Applause!"
- l. Excel-O-Gram.

61. On page 29 of Mr. Marshall's testimony, he indicates that ULH&P is involved on the national level with both the Edison Electric Institute and the American Gas Association. Indicate how much has been paid to these organizations in the form of dues or membership fees in the test year and what accounts the payments were recorded in.

62. Indicate what costs ULH&P incurred and how the costs were recorded when it was the host utility and co-sponsor of the 1989 conference on demand side management.

63. In ULH&P's response to Item 14 of the Commission's Order of March 30, 1990, a variance report for the utility plant and

accumulated depreciation reserve was presented. For each of the subaccounts listed below, explain the reason for the change in the subaccount balance between 1988 and the test year.

a. Subaccount No. 101-1720, Office Furniture and Equipment.

b. Subaccount No. 101-2530, Mains.

c. Subaccount No. 101-2590, Services.

d. Subaccount No. 101-2603, House Regulators.

e. Subaccount No. 101-2605, House Regulator Installation.

f. Subaccount No. 101-2731, Autos and Trucks.

g. Subaccount No. 101-3450, Poles and Fixtures.

h. Subaccount No. 101-3460, Overhead Conductors and Devices.

i. Subaccount No. 101-3570, Underground Conductors and Devices.

j. Subaccount No. 101-3581, Line Transformers - Tran.

k. Subaccount No. 101-3600, Meters.

l. Subaccount No. 101-3633, Street Light - Boulevard.

m. Subaccount No. 101-3731, Autos and Trucks.

n. Subaccount No. 106-24, Gas Distribution.

o. Subaccount No. 106-25, Gas General.

p. Subaccount No. 106-33, Electric Transmission.

q. Subaccount No. 106-34, Electric Distribution.

r. Subaccount No. 106-35, Electric General.

s. Subaccount No. 106-75, Common General.

t. Subaccount No. 108-34, Electric Distribution.

- u. Subaccount No. 108-75, Common General.
- v. Subaccount No. 108-2530, Mains.
- w. Subaccount No. 108-2590, Services.
- x. Subaccount No. 108-3520, Station Equipment.
- y. Subaccount No. 108-3550, Overhead Conductors and
Devices.
- z. Subaccount No. 108-3570, Underground Conductors and
Devices.
- aa. Subaccount No. 108-3581, Line Transformers - Tran.
- ab. Subaccount No. 108-3731, Autos and Trucks.

64. In response to Item 20a (8) of the March 30, 1990 Order, ULH&P indicated that the federal and state income tax returns for the taxable year ended during the test year would not be filed until September and October of 1990.

a. Provide a copy of the federal and state income tax returns filed during the test year, including supporting schedules.

b. The 1989 Annual Report on file with the Commission includes a reconciliation of the book tax with the federal income tax for 1989. Provide all calculations and workpapers which support the federal income tax reported in the 1989 Annual Report, for both electric and gas operations.

65. In response to Item 25b of the March 30, 1990 Order, ULH&P provided schedules of its miscellaneous general expenses. Provide the following for both the electric and gas departments:

a. A breakdown of the Industry Association Dues. This listing should include the name of the organization, the amount of

the dues, how frequently the dues are paid, and a description of the function of the organization. In addition, for each listed organization, indicate the portion of the dues which relate to the organization's lobbying efforts, research, administrative costs, etc.

b. A breakdown of the Other Experimental and General Research Expenses. This listing should include the name of the payee, the amount of the expense, and a general description of the nature of the expense. Expenditures of less than \$5,000 may be grouped together by the nature of the expense.

66. In the response to Item 25b are listed several other miscellaneous general expenses in excess of \$5,000. For each of the expenses listed below, provide an explanation of the nature of the expense, an indication of whether this expense will be of a recurring nature, and a detailed explanation as to why the expense should be included for rate-making. The expenses are:

- a. Globe Business Interiors - Renovation.
- b. King's Island - Employee Appreciation Day.
- c. Burson-Marsteller - Communications Program.

67. ULH&P's response to Item 28 did not adequately answer the question. However, a review of the question and the response indicate a clarification may be needed. Provide a schedule of all lobbying activities for which ULH&P either paid for directly or the cost was allocated to it by the parent company. The schedule should include a description of the lobbying activity, the costs, and the account the cost was recorded in. The information is to

be separated between the electric and gas departments, and any allocation factors used are to be described.

68. The response to Item 39 of the March 30, 1990 Order indicated that, on average, the executive officers' salaries increased 28.4 percent over the amounts paid in 1988.

a. For each executive officer listed on sheet 2 of 3 in Item 39, indicate the allocation factor used in the test year for the salary assignment to ULH&P. Include a description of the basis for the allocation factor used and when the factor was last revised. For allocation factor changes made in the test year, explain the reason for the change.

b. For each executive officer listed on sheet 2 of 3 who received a salary increase over the previous year's salary, provide a detailed explanation for the increase. Include an explanation as to why the increase should be included for rate-making purposes.

c. Provide copies of any studies or analysis performed which indicated a need for the changes in the executive officers' salaries.

69. ULH&P's responses to Items 54 and 55 of the March 30, 1990 Order did not adequately answer the questions.

a. Based upon the testimony of Mr. Marshall and as determined from the referenced February 1, 1990 Status Report, the following Management Audit recommendations have been implemented by ULH&P:

III - 6
IV - 4
IV - 11
V - 7

III - 7
IV - 6
V - 1
V - 8

IV - 2
IV - 7
V - 6
VI - 3

VI - 8	VI - 11	VI - 14
VI - 15	VII - 2	VII - 4
VII - 6	VII - 8	VII - 12
VII - 14	VII - 16	VII - 17
VIII - 9	VIII - 10	VIII - 12
VIII - 14	VIII - 15	VIII - 16
VIII - 17	VIII - 19	VIII - 20
VIII - 21	IX - 1	IX - 2
IX - 3	IX - 4	IX - 5
X - 2	X - 4	X - 5
X - 9	X - 10	X - 11
X - 12	X - 13	X - 17
X - 18	X - 21	XI - 2
XI - 5	XI - 6	XII - 2
XIII - 1	XIII - 2	XIII - 3
XIV - 6		

For each of the implemented recommendations listed above, provide the information originally requested in Items 54 and 55 of the March 30, 1990 Order.

b. Based upon the testimony of Mr. Marshall and as determined from the referenced February 1, 1990 Status Report, the following Management Audit recommendations are still in progress:

III - 1	III - 9	III - 10
III - 11	V - 2	V - 4
V - 10	VI - 2	VI - 4
VI - 5	VI - 9	VI - 12
VI - 13	VII - 7	VII - 9
XI - 1	XI - 3	XII - 1

For each of the recommendations listed above, provide the information originally requested in Items 54 and 55 of the March 30, 1990 Order.

c. Based upon the testimony of Mr. Marshall and as determined from the referenced February 1, 1990 Status Report, the following Management Audit recommendations have been rejected:

VII - 13	VIII - 1	VIII - 11
XI - 4		

Provide a detailed explanation justifying why each of these recommendations have been rejected by ULH&P.

70. The year-end balance for Account No. 415, Revenues from Merchandising, Jobbing, and Contract Work, and Account No. 416, Costs and Expenses of Merchandising, Jobbing, and Contract Work, are shown on page 117-A of the 1989 Annual Report. A review of those account balances as of 1989 and 1988 shows that Account No. 415 experienced an increase of 25.8 percent and Account No. 416 an increase of 23.6 percent. Prepare a schedule detailing the activity recorded in these two accounts, separating the transactions between the gas and electric departments. The schedule should include the type of activity recorded (such as demonstrating appliances, installing appliances, installing piping, costs of inspections, etc.), the amounts recorded for 1989 and 1988, and the reasons for increases or decreases which occurred for the recorded activity between the two years. Any allocations should be identified and explained.

Done at Frankfort, Kentucky, this 11th day of May, 1990.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director